

1 detail.

2 Q Do you believe that job costs reflected in the  
3 financial statements for 1997 for CCI Construction as of  
4 December 31, 1997, are wrong?

5 A No.

6 Q Do you believe the job costs reflected on the  
7 1998 financial statement of CCI Construction as of  
8 December 31, 1998, are wrong?

9 A I'm unable to make that determination based on  
10 before there was not enough work done, enough audit  
11 procedures performed in connection with the accumulated  
12 costs to date. They relied upon 25 job costs.

13 Q So the answer is you have no reason to believe  
14 that the job costs for 1998, as of December 31, 1998, as  
15 reflected on the 1998 financial statement is wrong?

16 A I cannot opine on the job costs as presented on  
17 the financial statements.

18 Q But can we confirm you don't have any reason to  
19 believe that the job costs reflected on the 1998  
20 financial statement for the period ending December 31,  
21 1998, are wrong?

22 A I indicated why I felt they were wrong. There  
23 wasn't enough work done. Their work was limited to a  
24 selection of 25 random job costs. If that's the work

1 MR. MCCARRON: Q I'm asking, though, do you know  
2 of information which leads you to believe that the 1998  
3 job costs are actually incorrectly reflected on the 1998  
4 financial statement?

5 MR. MCGLYNN: Objection.

6 A I know subsequent to the end of the year there  
7 were significant losses incurred on jobs in progress in  
8 1998, jobs that they did very little work for or  
9 obtained very little audit evidence for to substantiate  
10 the work in process at 12/31/98.

11 MR. MCCARRON: Q Do you know whether -- Do you  
12 have any reason to know of any information which leads  
13 you to believe the job costs for 1998 are wrong on the  
14 1998 financial statement?

15 A The information I referred to were subsequent  
16 schedules prepared by CCI management, total estimated  
17 cost.

18 Q Sir, estimated cost is not a job cost at the  
19 time, is it?

20 A It could be. It's either going to be an  
21 accumulated job cost or estimated cost to complete.

22 Q Sir, do you have any reason to believe that the  
23 actual job costs actually incurred during 1998 is  
24 inaccurately or incorrectly reflected on the financial

1 statement?

2 MR. MCGLYNN: Objection.

3 A I don't have a reason to believe that it was or  
4 was not.

5 MR. MCCARRON: Q Do you have any reason to believe  
6 that additional audit procedures by Brown, Schultz in  
7 connection with the work they performed for the 1998  
8 audit on the financial statement of CCI Construction  
9 would have led to a different result?

10 A Yes.

11 Q To what extent would additional procedures have  
12 led to a different result performed in the audit by  
13 Brown, Schultz for the 1998 time period?

14 A As I had described previously, their testing of  
15 accumulated job costs relied upon a random sample of 25  
16 job costs. In 1998, they relied upon estimated costs to  
17 complete as represented by management for gross profits  
18 on two individual jobs that they had never historically  
19 met. They unduly accepted management's representation.  
20 There is no documentation in the file that anything was  
21 done to corroborate that information that management  
22 represented were the estimated costs to complete.

23 In addition, also in 1998 they specifically  
24 excluded from their job costs testing the job -- I'm

1 it the same as your criticism of the audit by Brown,  
2 Schultz for 1997 in those respects?

3 A Yes, it is.

4 Q What is your criticism -- let me start over.

5 In what respect concerning PCIC did Brown,  
6 Schultz not act in conformity with Generally Accepted  
7 Auditing Standards?

8 A In the recording of the guaranty as are evident  
9 by PCIC.

10 Q What was it about the recording of the guaranty  
11 by PCIC which was not in accordance with Generally  
12 Accepted Auditing Standards?

13 A It was not proper. There is no basis for it.

14 Q What was not proper?

15 A The recording of the guaranty as revenue.

16 Q So the recording or including in revenue the  
17 amount of the guaranty by PCIC for the Mahanoy Prison  
18 claim was not proper?

19 A That's correct.

20 Q Why was it not proper to include in revenue --  
21 is that what you mean by recording, including in  
22 revenue?

23 A Correct.

24 Q Why was it not proper to include in revenue the

1 certain results desired by the related parties, the  
2 resulting accounting measures may not represent what  
3 they usually would be expected to represent.

4 Q So what specific GAAP procedure was violated by  
5 including the PCIC guaranty amount in revenue for the  
6 1998 financial statement?

7 A There is no basis for recording it as revenue.  
8 How does it relate to revenue? It wasn't done in the  
9 ordinary course of business. It was merely a guaranty  
10 by a related party that --

11 Q what?

12 A -- I'll pay it if the customer doesn't.

13 Q Isn't it guaranteed income, sir?

14 A No.

15 Q why is it not guaranteed income?

16 A A guaranty did not relate to that claim.

17 Q Are you telling me that the guaranty was no  
18 good?

19 A The guaranty was just that. It was a guaranty  
20 by a related party that I will deposit the difference  
21 between what you collect on a claim and the difference  
22 I'll put in, but it doesn't get recognized as revenue.

23 Q was the guaranty valid?

24 A I assume that it was, yes. I reviewed the

1 guaranty.

2 Q Was the guaranty made up?

3 MR. MCGLYNN: Objection.

4 A I don't know.

5 MR. MCCARRON: Q Was it a contrived guaranty?

6 A I don't know.

7 Q Was there an insurance policy issued by PCIC to  
8 CCI Construction?

9 A Yes.

10 Q Did the insurance policy cover the Mahanoy  
11 Prison job?

12 A Yes.

13 Q Was the claim for which the PCIC guaranty was  
14 provided for the claim by CCI arising out of the Mahanoy  
15 Prison Project?

16 A The claim --

17 MR. MCGLYNN: Objection.

18 THE WITNESS: The claim was related to the Mahanoy  
19 Prison job.

20 MR. MCCARRON: Q So there existed an insurance  
21 policy issued by PCIC for which conceivably may cover or  
22 could have covered the claim by CCI for the Mahanoy  
23 Prison Project, is that right?

24 MR. MCGLYNN: Objection.

1 A The claim --

2 MR. MCCARRON: Q Is that right?

3 A -- had to do for extended costs that in my  
4 opinion are not remedial costs, which was the insurance  
5 policy that was issued by PCIC, in addition, what was  
6 disclosed in PCIC's financial statements.

7 Q So is your problem with including the PCIC  
8 guaranty in revenue your determination or belief that  
9 the PCIC insurance policy did not cover the Mahanoy  
10 Prison claim?

11 A I have two problems with the recording of it.

12 Q Is it true that one of the issues you have with  
13 the PCIC guaranty being reflected in revenue is that  
14 it's your opinion the PCIC insurance policy did not  
15 cover the CCI claim concerning the Mahanoy Prison  
16 Project?

17 A That's correct.

18 Q So that if you're wrong about the interpretation  
19 of the insurance policy and it did provide coverage for  
20 the claim by CCI concerning the Mahanoy Prison Project,  
21 then the concern of yours, including the PCIC guaranty,  
22 would be eliminated?

23 A No, it would not be eliminated. The PCIC  
24 guaranty -- as I said, I had two problems with it -- is

1 a separate issue.

2 Q But at least one of your two concerns would be  
3 eliminated.

4 MR. MCGLYNN: Have you finished your answer?

5 THE WITNESS: No, I haven't.

6 MR. MCCARRON: Q Isn't it the situation -- if I  
7 could --

8 MR. MCGLYNN: He hasn't finished his answer. Maybe  
9 he'll answer this concern when he finishes the answer.  
10 Go ahead, please.

11 A The issue with the claim, and as I opined on  
12 earlier, in my opinion was not covered under a remedial  
13 insurance contract issued by PCIC.

14 The second issue related to the guaranty by the  
15 stockholder, if you will -- the stockholder of PCIC  
16 happened to be the stockholder of CCI -- was a  
17 contingent gain. If the -- If you do not collect from  
18 the Commonwealth of Pennsylvania or from the owner, I'll  
19 pay the difference. Simply that, a guaranty that if  
20 something doesn't happen in the future, I will do  
21 something.

22 MR. MCCARRON: Q What is it about that that  
23 violates GAAP?

24 A As I just read in FAS 57.



1 stockholder owned one hundred percent of and in his own  
2 deposition said I determined what gets paid and what  
3 doesn't get paid.

4 Q Was the PCIC guaranty a guaranty by a  
5 stockholder of CCI?

6 A It was a guaranty by a company under common  
7 control.

8 Q Was the PCIC guaranty a guaranty by a  
9 stockholder of CCI?

10 A No.

11 Q Sir, in paragraph 15, does it not indicate that  
12 you could include in revenue the amount of the related  
13 party transaction if there is disclosure?

14 MR. MCGLYNN: Objection as to the form.

15 A Where are you referring to that?

16 MR. MCCARRON: Q I'm asking, sir, doesn't it  
17 reflect the concept in paragraph 15 of FAS 57 that if a  
18 related party transaction is disclosed, then it can be  
19 included in revenue?

20 A No.

21 Q You don't understand that that's what that  
22 means?

23 A No, I don't read that out of there.

24 Q Let me ask you, does -- are you familiar with

1 the treatment of insurance claims under Generally  
2 Accepted Accounting Principles?

3 A I do not audit any insurance companies, no.

4 Q Are you aware of the treatment of insurance  
5 claims which a client may have?

6 A I've had cases where clients have had claims  
7 against insurance companies, yes.

8 Q And are you aware that if the -- that there are  
9 instances -- let me start over.

10 Are there instances in which insurance claims --  
11 the amount of insurance claims can be properly included  
12 in revenue under accrual accounting methods?

13 A If there is a legal basis --

14 Q Is that a yes?

15 A Can I finish my response?

16 Q It either is or it isn't.

17 A Yes, if there's a legal basis for the claim,  
18 which there wasn't in this case.

19 Q And you've decided that there was not a legal  
20 basis for the claim -- let me start over.

21 Did you consult an attorney about whether there  
22 was a legal basis for the PCIC claim?

23 A I did not.

24 Q So you, independent of an attorney, decided

1 there was not a legal basis for the PCIC claim by CCI  
2 Construction, is that true? Is that true?

3 A Ask it again.

4 Q You determined, independent of a lawyer, that  
5 the PCIC claim against the PCIC policy -- let me start  
6 again.

7 You determined without consulting an attorney  
8 that the CCI claim against the PCIC policy was not a  
9 covered claim and there was no legal obligation for PCIC  
10 to pay it, is that right?

11 A I did that on my own based on the remedial work.

12 Q Did you have law training?

13 A No.

14 Q Are you an attorney?

15 A No.

16 Q Are you qualified to interpret the provisions of  
17 an insurance policy?

18 A From my understanding of reading it, I felt  
19 qualified that I can make a judgment as to whether a  
20 claim for delayed work fell under a remedial work claim  
21 as disclosed in the PCIC financial statement.

22 Q Do you have any reason to believe that Bruce  
23 Brown or the other folks at Brown, Schultz were less  
24 qualified than you to determine whether the PCIC policy

1 covered the CCI claim arising out of the Mahanoy Prison  
2 Project?

3 A I don't know what their qualifications were, no.

4 Q You have no reason to believe that you're more  
5 qualified than Bruce Brown to make a judgment about the  
6 application of an insurance policy, do you?

7 A That's correct, from an insurance policy claim.

8 Q Would it be a violation of Generally Accepted  
9 Accounting Principles for an accountant to make a  
10 reasonable professional judgment about whether an  
11 insurance policy covered a claim but happened to be  
12 wrong?

13 A If we're now talking about the 1,162,000 claim  
14 and whether that is going to fall under recognition  
15 standards, guaranteed aside --

16 Q Why don't we stick with my question.

17 A Can I finish my question?

18 Q See, you're not allowed to ask questions.  
19 That's part of the problem.

20 MR. MCGLYNN: Do you want to finish your answer?  
21 Finish your answer.

22 MR. MCCARRON: He's not giving me an answer. He's  
23 giving me a speech.

24 MR. MCGLYNN: Do you want to take another two-minute

1 A FAS 57 for one.

2 Q Anything else?

3 A APB No. 4, which deals with conservatism. FAS  
4 No. 5, gain contingencies.

5 Q Any doubt in your mind that the information  
6 presented to -- available to Brown, Schultz when it  
7 performed its audit work concerning the 1998 period that  
8 the amount would be paid by PCIC to CCI Construction?

9 MR. MCGLYNN: Objection.

10 A There is nothing in the work paper that I  
11 reviewed that indicated they had reviewed whether that  
12 claim was paid.

13 MR. MCCARRON: Q Sir, revenue doesn't depend on  
14 whether it was actually paid during the period of the  
15 financial statements, does it?

16 A Or subsequent review.

17 Q Sir, to recognize revenue for accrual  
18 accounting, it is not necessary that the revenue  
19 actually be received by the company during the period  
20 under -- for which the financial statement is issued,  
21 isn't that right?

22 A I agree.

23 Q So it was not important to your consideration  
24 about whether or not to include the PCIC guaranty in

1 revenue about whether the revenue was received or the  
2 PCIC claim was paid prior to December 31, 1998, is that  
3 right?

4 A No, I disagree. You need to look -- If you're  
5 going to -- and, number one, the guaranty never should  
6 have been recorded as revenue. There is going to be a  
7 collectibility issue on whether PCIC had the ability to  
8 make that guaranty good.

9 Q Have you learned any information which leads you  
10 to believe the guaranty by PCIC was not valid?

11 A At this point in time I know that the guaranty  
12 was paid in June and October of 1999.

13 Q So is there any reason -- do you have any  
14 information which leads you to believe that as of the  
15 audit work by Brown, Schultz for the period 1998 that  
16 there was reason to doubt the collectibility of the PCIC  
17 guaranty?

18 A Only by reference to the PCIC qualified report  
19 on the audited financial statements of PCIC.

20 Q So you have reason to doubt about whether the  
21 PCIC guaranty was collectible as of the period of time  
22 when Brown, Schultz was performing its audit work?

23 A As of the field work date, yes.

24 Q What information do you base your belief that

1 Q Now, in arriving at your adjustments to the  
2 estimated costs to complete for 1997 and 1998 to the  
3 financial statements, you used a method called the look  
4 back method, is that right?

5 A A method similar to the look back method.

6 Q How does the method you used in deriving the  
7 adjustments you proposed in the 1997 and 1998 financial  
8 statements differ from the look back method?

9 A The look back method is a method predominantly  
10 used by the IRS in calculating the difference between  
11 construction in progress at a given date and the final  
12 completion date. They compute an interest portion on  
13 that, and it's related to that.

14 I used a method what I call similar to look back  
15 method where I looked at the best information available,  
16 the best cost to complete information available, and  
17 applied that to what should have been as of a given  
18 date.

19 Now, as we go through the individual contracts,  
20 you'll see that on several contracts I varied from that,  
21 and I varied from it, as I documented on the work  
22 papers, because the job had just started and Brown,  
23 Schultz would not have known -- may not have known all  
24 the available information.

1 method is used -- reflected in the tax regulations, is  
2 that right?

3 A Not necessarily. I didn't dream up the idea of  
4 doing this and consulted with people that -- if I was  
5 going to restate --

6 Q I think you're misunderstanding.

7 MR. MCGLYNN: Have you finished your answer?

8 MR. MCCARRON: Q Isn't it the situation that tax  
9 regulations provide and discuss the look back method as  
10 a process used in connection with tax related issues?

11 A Under the strict terms of look back, yes.

12 Q Are you aware of any audit principle -- sorry,  
13 audit -- accounting principle, audit standard, or  
14 statement of pronouncement concerning accountants and  
15 auditors, which provides for either the look back method  
16 or some modified version of the look back method you  
17 employed in arriving at your adjustments for the 1997  
18 and 1998 audit statements?

19 A I believe it's applicable in the restatement of  
20 the financial statements from the best available  
21 information that's known, subsequent events.

22 Q Does GAAP, GAAS, or any accounting pronouncement  
23 provide for the use of the look back method or a similar  
24 method?



1 MR. MCGLYNN: Objection. Asked and answered.

2 A AS I indicated, it could. If you were restating  
3 the financial statements for correction of an error,  
4 it's not precluded from being used.

5 MR. MCCARRON: Q Is there an audit -- I'm sorry.

6 Is there an accounting principle or an audit  
7 standard or pronouncement of accounting or auditing  
8 principles or standards on which you relied to support  
9 your idea that the look back method or the modified  
10 version of the look back method you used is appropriate?

11 A That would be combining everything I said  
12 earlier with respect to use the best available  
13 information that I have, absent of records to review and  
14 absence of the audit procedures done not in accordance  
15 with GAAS, everything else considered in connection with  
16 review of Brown, Schultz's work papers, I felt this was  
17 the best method available to me to restate the financial  
18 statements for 1998 and 1997.

19 Q Are you aware of any instance in which the look  
20 back method is used other than in connection with  
21 tax-related issues?

22 A Under the term look back, no.

23 Q Where in the accounting literature is there  
24 support for the use of the look back method or the

1 modified version of the look back method you used to  
2 derive your proposed adjustments for the 1997 and 1998  
3 financial statements?

4 A Not specifically.

5 Q Could an accountant performing an audit use the  
6 look back method under GAAS in expressing an opinion  
7 about the financial statements?

8 A If it was in connection with the correction of  
9 an error and he was restating the financial statements,  
10 yes.

11 Q Could an accountant use the look back method in  
12 performing an audit to express an opinion about  
13 financial statements in accordance with GAAS?

14 A I just answered that.

15 Q No, you didn't.

16 A I did.

17 Q No, you didn't. You told me --

18 MR. MCGLYNN: Let's not argue. Go on to the next  
19 question.

20 MR. MCCARRON: No, I'm not going on to the next  
21 question. The next question is going to be exactly the  
22 same.

23 MR. MCGLYNN: Then he's going to stand --

24 MR. MCCARRON: Do you want to argue with me, is that

1 acting in accordance with GAAS in performing an audit  
2 using the look back method?

3 A As I indicated previously, it would be a method  
4 that he may consider in the restatement of financial  
5 statements in connection with his engagement if -- and  
6 maybe an example would help explain it. If you were  
7 restating a financial statement and there is an error  
8 because of misuse of information in connection with a  
9 prior year, you would restate the financial information.

10 Q Did Brown, Schultz restate financial statements,  
11 sir?

12 A Did they restate financial statements?

13 Q Yes.

14 A No.

15 Q Weren't you testing the work done by Brown,  
16 Schultz?

17 A I was testing their audit work.

18 Q Wouldn't you be required to use the same  
19 procedures that -- which Brown, Schultz should use in  
20 determining its audit?

21 A I determined their procedures weren't adequate.

22 Q Sir, I didn't ask you that. Wouldn't you be  
23 required in testing the quality of the work by Brown,  
24 Schultz to use the same procedures which applied or

1 should have been used by Brown, Schultz in performing  
2 their audit?

3 A Yes.

4 Q Is the look back method a method which Brown,  
5 Schultz could properly have used in conducting their  
6 audit during 1997 and 1998?

7 A In connection with review of completed  
8 contracts, yes, they did.

9 Q In performing the audit of the 1997 and 1998  
10 financial statements for CCI, would Brown, Schultz have  
11 acted in accordance with Generally Accepted Auditing  
12 standards to have used the look back method?

13 A A method similar to the look back by reviewing  
14 completed contracts, which is documented in their work  
15 papers that they did.

16 Q Would Brown, Schultz have been justified in its  
17 audit procedures in using the look back method in its  
18 audit of estimated costs to complete contracts?

19 A Yes. They would have reviewed, which they did.  
20 They reviewed two completed contracts during the year,  
21 which in effect is using a method similar to what I used  
22 based on our work in process in prior years, how did  
23 these contracts actually finish up. For instance, in  
24 1998 they looked at the 1997 -- two work in process jobs

1 contracts?

2 MR. MCGLYNN: Objection. Asked and answered.

3 A In connection with their review of completed  
4 contracts.

5 MR. MCCARRON: Q Was there -- Did you use the look  
6 back method in determining the adjustments you proposed  
7 for the 1997 and 1998 financial statements for anything  
8 other than completed contracts?

9 A For contracts in progress.

10 Q You used it for contracts in progress?

11 A For contracts in progress.

12 Q And the adjustments you proposed relate to  
13 contracts in progress?

14 A Correct.

15 Q Did Brown, Schultz use the look back method in  
16 their audit procedures for contracts in progress?

17 A They used it in connection with review of the  
18 completed contracts in developing and relying upon  
19 management's estimates which then figure into the  
20 construction in progress schedule.

21 Q But for actually -- In connection with the audit  
22 work done by Brown, Schultz specifically with respect to  
23 the estimated cost to complete, did it not use the look  
24 back method because the data was not yet available,

1 isn't that the case?

2 A Correct.

3 Q Did you limit your restatement process using the  
4 look back method and the modified look back method to  
5 data which was -- which you know was actually available  
6 to the auditors when it conducted the 19 -- the audit of  
7 the 1997 and 1998 financial statements?

8 A I don't know what audit information was  
9 available to the auditors. As I've explained  
10 previously, they didn't extend their audit procedures  
11 necessary, that they could have acquired any additional  
12 information. There was obviously problems with the  
13 estimated cost to complete.

14 Q You, therefore, may have relied on and used  
15 data, which was not available to the auditors, when they  
16 performed their audits of the 1997 and 1998 financial  
17 statements, is that true?

18 A That's true.

19 MR. MCCARRON: And -- let me get to my other stuff.

20 Peter, I'm going to work from this packet here.  
21 I'm not necessarily going to mark them all at once.

22 Throw a tag on that.

23 (Document marked Exhibit No. 38.)

24 Q Sir, I placed in front of you a document we've

1 have been an adjustment. Had they allocated indirect  
2 costs to specific contracts, the total estimated cost  
3 and total -- and estimated cost to complete would have  
4 been different.

5 Q would the amount of the adjustment have been  
6 material?

7 A I did not do that calculation.

8 Q So you don't know -- you can't tell us that it  
9 would have been material if the indirect costs had been  
10 treated differently, is that right?

11 A That's correct.

12 Q Would the nonallocation of indirect costs be a  
13 basis on which an auditor can withhold an opinion?

14 A If it was material?

15 Q I'm asking, sir. If the -- If management --

16 MR. MCGLYNN: He answered your question.

17 MR. MCCARRON: Q If management did not reflect on  
18 their financial statements -- it would not reflect on  
19 their financial statements cost to complete, which  
20 included indirect costs, would that be enough to  
21 withhold your opinion or to qualify your opinion as an  
22 auditor?

23 A If in my opinion the effect of not including  
24 indirect costs to jobs in progress was a material

1 amount, yes, it would change my opinion.

2 Q But if the amount was not material; that is --  
3 let me start over.

4 If the amount of the nonincluded indirect cost  
5 was not material, then that would not be a basis on  
6 which to withhold your opinion and to qualify your  
7 opinion as an auditor, is that right?

8 A Just on that given item, no.

9 Q Do you know whether Bruce Brown calculated the  
10 effect of the nonallocation of indirect costs?

11 A There was a calculation done on two jobs from  
12 what I recall each year based on a very simple review of  
13 indirect cost.

14 Q The fact that indirect costs were not allocated  
15 was disclosed on the financial statements?

16 A Yes, it was.

17 Q And that disclosure was adequate?

18 A Yes.

19 Q Is it your opinion that a partner has to sign  
20 every piece of work paper in the audit file?

21 A No.

22 Q In the last page of Exhibit 41, which is also  
23 numbered DeBruyn 609, can you read to us what you wrote  
24 in the left-hand margin at the very top?



1 with this litigation as an expert witness.

2 Q Did you find any support for your use of the  
3 look back method to evaluate the propriety of the work  
4 done by auditors?

5 A Yes, I did. I had determined that the look back  
6 method was reasonable and had been used in damage  
7 evaluation cases in connection with litigation support  
8 engagements.

9 Q Are you aware of any instance in which the look  
10 back method was used to evaluate the propriety of the  
11 accounting work done by auditors?

12 A I don't have any specific cases, no.

13 Q Are you aware of any other accountant who has  
14 ever used the look back method to evaluate the propriety  
15 of work done by auditors in performing audits of  
16 financial statements?

17 A I'm aware of individuals in our firm that have  
18 used a method similar to what I have employed to  
19 determine the effect of an accounting issue.

20 Q Sir, are you aware of any other instance in this  
21 case when an accountant has employed the look back  
22 method to evaluate the propriety of the work done by  
23 auditors in performing audits of financial statements?

24 A No.

1 looked at all the information that was available.

2 Q As of the time that the audit was conducted?

3 A No.

4 Q So you're talking about you looked at  
5 information obtained subsequent to the audit, that's  
6 what you looked at?

7 MR. MCGLYNN: Let him finish his answer.

8 MR. MCCARRON: Q Is that right?

9 A That's correct.

10 Q Did you determine the reason that CCI went  
11 bankrupt?

12 A No.

13 Q Did you consider Mr. Ortenzio's explanation for  
14 the reasons CCI had financial difficulty and went  
15 bankrupt?

16 A I don't recall what it was in the deposition.

17 Q Did you receive a document which reflected an  
18 explanation about Mr. Ortenzio about the reason that CCI  
19 had financial difficulty?

20 A I received his initial deposition.

21 Q How about a letter from Mr. Ortenzio which  
22 explained the reason that CCI went bankrupt, did you see  
23 that?

24 A I did not.

1 Q So you just took at face value the financial  
2 reporting by CCI in determining your adjustments for the  
3 financial statements for 1998?

4 A I didn't take it at face value. I realized  
5 USF&G had now been involved in the wrap-up of the  
6 engagements, so I felt there was additional reliance  
7 that a third party was reviewing the work in process  
8 schedule.

9 Q Do you know whether USF&G had assured the  
10 correctness of the interim financial statements issued  
11 by CCI for 1999?

12 A It came from the USF&G office.

13 Q I'm asking, do you know whether USF&G did  
14 anything to assure that the information included on the  
15 financial statements from CCI was correct for 1999?

16 A No.

17 Q So you took financial statements from CCI, which  
18 you have now determined were inaccurate for 1997 and  
19 1998, and you relied on them for making your  
20 calculations based on 1999 information, is that true?

21 A That's true.

22 Q Sir, on page 10 of Exhibit 45 you make a  
23 handwritten note in the left-hand column. Did you write  
24 "ouch"?

1 Brown, Schultz included in the 1997 or 1998 audit report  
2 which was false?

3 A Which was false? No.

4 Q One second.

5 The work you did would not be characterized as a  
6 reaudit?

7 A No, it would not.

8 Q Did the work papers -- never mind.

9 Can you tell us what you consider to be remedial  
10 work?

11 A Under the definition in the PCIC significant  
12 accounting policies and under my review of the  
13 definition of remedial work, it was work that the  
14 contractor; in this case, CCI, was obligated to under  
15 the original contract, warranty type work that they were  
16 called back to do within, I believe, a year period for  
17 that contract.

18 Q That would be remedial work?

19 A Yes.

20 Q Including warranty work?

21 A Yes.

22 (Discussion had off the record.)

23 MR. MCCARRON: I'm done.

24 (Whereupon the deposition concluded)